

Message Text

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51

ACTION EA-10

INFO OCT-01 ISO-00 EB-07 TRSE-00 COME-00 AID-05 L-02 SS-15

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E.O. 11652: N/A

TAGS: EGEN, EFIN, RP, US

SUBJECT: PHILIPPINE REGULATION OF FOREIGN INSURANCE
COMPANIES

REF: A) MANILA 11618 B) STATE 179991

1. THE PHILIPPINE GOVERNMENT HAS ANNOUNCED SIGNING OF NEW INSURANCE CODE OF THE PHILIPPINES (PRESIDENTIAL DECREE NO. 612). ALTHOUGH COPIES OF THE NEW CODE ARE NOT YET AVAILABLE, THE GOVERNMENT HAS ANNOUNCED THAT THE CODE CONTAINS A NUMBER OF MEASURES TO PROTECT POLICY HOLDERS, PROFESSIONALIZE THE INDUSTRY AND STRENGTHEN THE GOVERNMENT'S REGULATORY AUTHORITY.

2. ACCORDING TO INDUSTRY OBSERVERS AND GOVERNMENT SOURCES, THE NEW CODE DOES NOT CONTAIN PROVISIONS REQUIRING EITHER DOMESTICATION OR FILIPINIZATION OF FOREIGN INSURANCE FIRMS. PROVISIONS CALLING FOR THESE CHANGES HAD BEEN DISCUSSED DURING PUBLIC HEARINGS ON THE DRAFT VERSION OF THE NEW CODE IN AUGUST AND SEPTEMBER OF LAST YEAR. THE GOVERNMENT APPARENTLY DECIDED THAT MOVES TOWARD DOMESTICATION AND FILIPINIZATION ARE NOT APPROPRIATE AT THIS TIME. U.S. FIRMS ARE PLEASED WITH THE CODE. HOWEVER, THE PRESSURES ON THE
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GOVERNMENT TO PURSUE DOMESTICATION AND FILIPINIZATION,

REMAIN STRONG. BUT UNTIL THE GOVERNMENT ACTS FURTHER
THE ABILITY OF ALL FOREIGN FIRMS TO CARRY ON THEIR
OPERATIONS IN THE PHILIPPINES REMAINS UNIMPAIRED.

3. SHOULD THE GOVERNMENT FURTHER RESTRICT THE OPERATION
OF FOREIGN FIRMS, THE PRINCIPAL U.S. FIRMS IN THE INDUSTRY,
THE AFIA GROUP AND THE PHILAM GROUP, HAVE DOMESTICALLY
INCORPORATED AFFILIATES WHICH COULD ASSUME THE DIRECT
UNDERWRITING FUNCTIONS IF FOREIGN INCORPORATED FIRMS
WERE LIMITED TO REINSURANCE TRANSACTIONS. THE AFIA GROUP
HAS ALSO HEDGED AGAINST FILIPINIZATION WITH THE
RECENT SALE OF A 60 PERCENT INTEREST IN ITS DOMESTICALLY
INCORPORATED AFFILIATE, MONARCH INSURANCE COMPANY, TO
THE SORIANO GROUP AND PHILIPINE EMPLOYEES OF THE FIRM.
THE PHILAM GROUP IS VULNERABLE TO FILIPINIZATION, HOWEVER,
ITS DOMESTICALLY INCORPORATED FIRMS ARE OWNED PRINCIPALLY BY THEIR FOREIGN PARENTS.
SULLIVAN

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